STATE OF RHODE ISLAND

BEFORE THE

PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION	)	Docket No. 3497
OF THE PAWTUCKET WATER SUPPLY	)	
BOARD FOR AN INCREASE IN RATES FOR	)	
WATER SERVICE	)	

DIRECT TESTIMONY OF

ANDREA C. CRANE

REGARDING REVENUE REQUIREMENTS

ON BEHALF OF

THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

June 11, 2003

TABLE OF CONTENTS

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 38C Grove Street, Ridgefield, Connecticut 06877.

Q. By whom are you employed and in what capacity?

A. I am Vice President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various financial studies regarding utility rates and regulatory policy.

Q. Please summarize your professional experience in the utility industry.

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

Q. Have you previously testified in regulatory proceedings?

A. Yes, since joining The Columbia Group, Inc., I have testified in over 150 regulatory proceedings in the states of Arizona, Connecticut, Delaware, Hawaii, Kansas, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, South

Carolina, Vermont, West Virginia and the District of Columbia. These proceedings involved water, wastewater, gas, electric, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony is included in Appendix A. I have also been engaged to provide testimony as an expert witness in several civil proceedings.

Q. What is your educational background?

A. I received a Masters degree in Business Administration, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

Q. Do you have any additional relevant experience?

A. Yes, from January 1991 until January 1998, I served as Vice Chairman of the Water Pollution Control Commission in Redding, Connecticut. This Commission was charged with designing, constructing, and operating a sewage collection and treatment facility for the Town of Redding.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The Columbia Group, Inc. was engaged by The Division of Public Utilities and Carriers ("Division") to review the recent base rate filing by The Pawtucket Water Supply Board ("PWSB" or "Board") and to provide revenue requirement recommendations. In developing my revenue requirement recommendations, I reviewed the PWSB's testimony and exhibits and the responses to data requests propounded upon the PWSB by the Division and by the Staff of the State of Rhode Island, Public Utilities Commission ("Commission"). We are still waiting for responses to our most recent round of discovery. The recommendations contained in this testimony will be updated or revised, if necessary, once these discovery responses are received and reviewed.

III. SUMMARY OF CONCLUSIONS

Q. What are your conclusions concerning the PWSB's revenue requirement?

A. Based on my review, my conclusions and recommendations are as follows:

1. Based on the rate year ending June 30, 2004, the PWSB has pro forma revenue at present rates of $11,737,306 (see Schedule ACC-1).
2. The PWSB has pro forma costs, including pro forma debt service costs, of $12,740,068 and an operating reserve allowance requirement of $112,818, for a total revenue requirement of $12,852,887.
3. Based on these determinations, a rate increase of $1,115,581 is appropriate. This represents an increase of 9.50% over total pro forma revenue at present rates. My recommendation is approximately 65% less than the rate increase of $3,157,390 requested by the PWSB.

IV. DISCUSSION OF THE ISSUES

A. Introduction

Q. Please summarize the PWSB's request for rate relief in this case.

A. The PWSB is requesting a rate increase of $3,157,390 or 28.0% over its claimed level of pro forma revenue at present rates. The PWSB's request is based on a test year ending June 30, 2002 and on a rate year ending June 30, 2004. The requested increase of $3,157,390 is composed of the following items:

$898,500	Purification Costs Relating to Delays in Treatment Plant
90,000	Pumping Costs Relating to Delays in Treatment Plant
638,000	Increases to IFR
414,000	Increases in Salaries and Wages
288,000	Increases in Health Care Costs
162,000	Increases to Chemical Costs
150,000	Increases to Property Taxes
149,200	Interim Costs That Were to be Covered Under DBO
100,000	RICWFA Financing Costs
48,000	Increases to Insurance Costs
130,000	Other Budgeted Increases
32,000	Payroll Tax Increases
20,000	Leak Detection
209,000	FY02 Shortfall
179,600	O&M Reserve
14,300	Beeper Stipends
57,300	Operating Income
(278,000)	Decreases to Debt Service
(144,500)	Other Expenses Decreases (Net)
$3,157,400	Total

This case is being driven primarily by capital items for which the PWSB is requesting funding over one year. $1.77 million, or approximately 56% of the requested increase, relates to increases due to delays in the treatment plant and/or increases in the Infrastructure Rehabilitation ("IFR") funding level. On May 8, 2003, the Commission granted a Motion by PWSB for interim relief in the amount of $359,700. Specifically, the Commission approved a request by the PWSB to utilize funds currently collected in the IFR account to fund certain projects including: the replacement of granular activated carbon ("GAC") filters ($213,000); the replacement of laboratory equipment ($109,200); the rebuilding of a wash water motor and raw water pump ($9,500); inspection of two water storage tanks ($8,000); and an inspection of the existing water treatment facilities ($20,000). These projects were included in the PWSB's adjustments for Purification Costs Relating to Delays in Treatment Plant, in the amount of $898,500, or Interim Costs That Were to be Covered Under DBO[1] ($149,200), as shown in Ms. Marchand's testimony.

As noted in Ms. Marchand's testimony, it was anticipated that the PWSB would by this time have entered into an agreement with a vendor for the construction and operation of a new treatment plant. Due to a dispute between the PWSB and the City Council of Pawtucket, over which entity had jurisdiction to award a contract for the new facility, no agreement had been reached when Ms. Marchand filed her testimony. In fact, according to page 5, lines 26-27 of that testimony, "…the procurement process for the construction of a new treatment plant is currently at an end." However, since that testimony was filed, I understand that the dispute between the PWSB and the City Council has been resolved, and that the PWSB has, or will soon, enter into an agreement with Earth Tech for construction

1 Design, Build, Operate.

and operation of a new treatment plant.

B. Pro Forma Retail Revenue

Q. How did the Board develop its pro forma revenue claim?

A. In order to develop its pro forma revenue claim, the PWSB used its actual test year revenue, adjusted to reflect the annualization of the rate increase effective April 1, 2002.

Q. How should pro forma revenues for a water utility be determined?

A. In order to determine pro forma revenue, it is necessary to first examine metered consumption, i.e. sales per customer. Consumption fluctuates from year-to-year due to a variety of factors. The most significant factors that influence the variations in annual water consumption from year-to-year are temperature and rainfall. Given that metered consumption fluctuates, it is common to use an average consumption over a period of time to determine a "normalized" level of consumption for ratemaking purposes.

According to the response to DIV 1-5, the PWSB only has reliable residential usage data for the past three years. I have reviewed this residential data, as well as rainfall data for these three years in the PWSB's service territory. Unfortunately, there does not appear to be a quantifiable relationship between the rainfall in each of these years and average residential consumption. However, it should be noted that the PWSB's actual residential consumption per customer in the test year was lower than residential consumption in either fiscal year

2000 or 2001.

I then examined the average consumption as determined pursuant to the PWSB's Annual Report to the Commission for the period 1994-2002, recognizing that this data may not be fully reliable. The results are as follows:

	Residential Customers	Usage HCFs	Consumption HCFs
6/30/02	22,531	3,439,394	152.7
6/30/01	22,375	3,966,115	177.3
6/30/00	21,623	3,358,812	155.3
6/30/99	21,539	3,249,056	150.8
6/30/98	21,539	2,934,714	136.3
6/30/97	21,416	4,465,056	208.5
6/30/96	21,416	3,220,168	150.4
6/30/95	21,416	2,827,397	132.0
6/30/94	21,416	3,118,050	145.6
Five Year Average (1998-2002)			154.5
Nine Year Average (1994-2002)			156.5

It appears from this data that the PWSB's actual test year consumption per customer may have been less than "normal". Moreover, the total billed retail consumption (including non-residential consumption) included in the PWSB's filing of 4,864,720 HCF, per Schedule 5.0, page 1 of Mr. Woodcock's testimony, is 6.5% less than the consumption of 5,204,488 HCF reported on page 7 of the Annual Report to the Commission for the fiscal year ending June 20, 2002.

Based on all of the information available to me at this time, I am recommending an adjustment to the PWSB's pro forma revenue to reflect an average five-year residential consumption of 154.5 HCF. This adjustment to the PWSB's pro forma revenue claim is shown in Schedule ACC-2. This adjustment results in additional residential sales of 40,556 HCF. I have selected a five-year average instead of a nine-year average, because I believe that the nine-year average is too heavily influenced by the extraordinarily high level of sales in fiscal year 1997. The five-year average of 154.5 HCF also appears more reasonable when one reviews the range of usage levels over the entire nine-year period.

I also recommend that the PWSB be required to reconcile the metered sales as reported to the Commission in the Annual Report for fiscal year 2002 and the test year sales shown in Mr. Woodcock's testimony at Schedule 5.0, page 1.

C. Wholesale Revenue

Q. How did the Company determine its wholesale revenue claim in this case?

A. As discussed on page 3, lines 8-13 of Mr. Bebyn's testimony, PWSB used a five-year average of wholesale sales to determine its pro forma revenue claim. These wholesale sales were priced at the rates that went into effect on April 1, 2002.

Q. Are you recommending any adjustment to the PWSB's claim?

A. Yes, I am. Based on my review of the nine-year history of wholesale sales, I believe that the use of a five-year average for wholesale sales actually understates normalized sales. The resulting average of 630,530 HCF is considerably less than actual sales in either fiscal year

2001 or 2002. Moreover, it is lower than actual sales in three of the last five years, as shown below:

	Sales (HCF)
Fiscal Year 2002	845,377
Fiscal Year 2001	740,766
Fiscal Year 2000	443,892
Fiscal Year 1999	660,540
Fiscal Year 1998	462,074
Fiscal Year 1997	662,830
Fiscal Year 1996	968,046
Fiscal Year 1995	877,588
Fiscal Year 1994	754,394
Five Year Average (2002-1998)	630,530
Nine Year Average (2002-1994)	712,834

In its last case, the PWSB projected wholesale sales of only 397,106 HCF for the rate year ending December 31, 2002, considerably understating such sales. In fact, in several cases the PWSB has argued that actual test year sales were abnormally low. Given all these factors, I recommend that the Commission utilize a nine-year average of wholesale sales. My adjustment is shown in Schedule ACC-3.

Q. Isn't it inconsistent to use a nine-year average to normalize wholesale sales and only a five-year average for retail sales?

A. In each case, I have selected a normalization period that I believe is most reasonable given a review of all available data. As previously discussed, the data suggests that the use of a nine-year average to normalize retail sales would overstate the PWSB's pro forma retail revenue at present rates, while the use of a five-year normalization period for wholesale sales also appears inappropriate. Therefore, I believe that it is entirely reasonable to evaluate retail and wholesale sales independently when determining an appropriate normalization period.

D. State Surcharge Revenue

Q. Are you recommending any adjustment to the PWSB's State Surcharge Revenue?

A. Yes, I am. It is my understanding that the PWSB collects a surcharge imposed by the State of Rhode Island of $0.0259 for every 100 gallons of water sold, and that the PWSB retains $0.01 of this amount. Since I am recommending an adjustment to increase the PWSB's total retail and wholesale sales, then it is necessary to make a corresponding adjustment to increase that portion of the surcharge which is retained by the PWSB.[2] My adjustment is shown on Schedule ACC-4.

E. Treatment Plant-Related Costs

Q. Please summarize the PWSB's request with regard to costs related to its treatment plant.

A. As previously mentioned, the PWSB has included costs of $1.77 million relating to various

[2] The portion of the surcharge proceeds that are actually paid to the State of Rhode Island are considered a direct pass-through and therefore they do not appear in the revenue requirements calculation.

treatment plant improvements that it is proposing to finance out of current revenues. These are costs that the PWSB claims it incurred as a result of the delay in selecting a vendor to construct and operate the new treatment plant. These costs include $898,500 in purification costs, $90,000 in pumping costs, and $149,200 in interim costs that would have been incurred by the vendor under the DBO agreement. In addition, the PWSB is requesting additional IFR funding of $638,000 to finance certain other well, pumping, and treatment plant improvements through 2005. These IFR costs will be addressed later in my testimony.

Q. Are you recommending any adjustments to the PWSB's claim?

A. Yes, I am. I am recommending two adjustments to the PWSB's claim. First, the Commission has already approved the PWSB's proposal to fund some of these costs through its current IFR balance. Therefore, the Board's prospective claim should be reduced by the amount that the Commission has already approved for funding through the existing IFR. In its capital budget, provided in response to DIV 1-2, the Board assumed that virtually all of the treatment-plant related expenditures would be financed from the IFR. Now that the PWSB has received approval to utilize $359,700 of IFR funds for these projects, I see no need for the Commission to require these amounts to be reimbursed to the IFR.

Second, I am recommending that the balance of these costs be funded over two years. As shown in Ms. Marchand's testimony, the total cost of $1.77 million represents expenditures through 2005. Moreover, it is reasonable to assume that the Board's rates will remain in effect for a period of at least two years, especially now that the proposed new treatment plant is back on track. If the Commission approves the PWSB's claim to fund all of these costs over a one-year period, then the Board's rates will be higher than necessary in subsequent years. Even though the Board has committed to depositing any incremental funds in subsequent years into a restricted account, it is preferable to set rates at a reasonable level now and to mitigate the impact of the requested rate increase. The PWSB's ratepayers have experienced rate increases of $6.6 million since 1991, and in this case they are being asked to pay another 28%. Given this history, the Commission should take all reasonable steps to reduce the rate impact while still providing sufficient revenues for the provision of safe and adequate utility service. In Schedule ACC-5, I have shown the net impact of my adjustment to reduce the Company's claim by the amount of previously-funded costs and to collect the remaining costs over a period of two years.

F. Salaries and Wages

Q. Please summarize the PWSB's salary and wage claim.

A. The PWSB is requesting a payroll increase of over $400,000. The majority of this amount ($399,809) relates to contractual salary and wage increases from the test year through the rate year. The PWSB has also included increases in contractual longevity payments of $5,722 and overtime increases of $8,315. The vast majority of the PWSB's employees are unionized under two contracts. The union contracts provide for increases of 3-4% annually between the test year and the rate year. However, there are also significant longevity payments included in the contracts.

Q. Do you have any concerns about the number of employees included in the filing?

A. Yes, I do. The PWSB's filing is based on a full complement of 66 employees. The Board has included one new position, that of Leak Detection Crew Leader. However, according to the PWSB's response to DIV-1-17, the PWSB currently has two employee vacancies. Moreover, the PWSB has consistently had unfilled positions. As shown in the responses to DIV 1-15 and DIV 1-16, the PWSB had 66 authorized positions since July 2001, but since that date it has averaged only 62 employees. In Docket No. 2674, the PWSB included a salary and wage claim of $2,168,393 for fiscal year 1999, which was the rate year in that case, while the Division recommended a salary and wage expense of $2,031,540.[3] Actual fiscal year 1999 salary and wage expense was $1,985,292. In Docket No. 3378, the Commission approved total payroll costs of $2,705,395, while actual test year payroll was $2,527,189.

A review of the history of the PWSB suggests that it is normal and customary for vacant positions to occur. Therefore, I am recommending that the Commission make an adjustment to eliminate costs associated with one vacant position. My adjustment is shown in Schedule ACC-7.

Q. How did you quantify your adjustment?

A. The current vacancies are for an Operator and a Technician. However, it is likely that vacant positions will change during the rate year. Accordingly, I recommend that the average salary and wage expense for the PWSB's non-administrative employees be used to quantify this adjustment. At Schedule ACC-7, I have reflected an adjustment to eliminate the salary and wage expense associated with one position at the average salary and wage level for the PWSB's non-administrative positions.

Q. Are you recommending any adjustment to the PWSB's claim for overtime costs?

A. Yes, I am. To determine its overtime claim, the PWSB increased its actual test year overtime costs by 3.0% annually. However, a review of the PWSB's historic overtime levels indicates that overtime costs do not strictly increase each year and therefore are a function not only of payroll rates but also of the number of overtime hours worked. Therefore, it is more appropriate to use an average of actual overtime hours over a multi-year period to determine a reasonable level of pro forma overtime costs. As shown in the Company's response to DIV 1-14, over the past five years the PWSB's overtime costs fluctuated from $110,909 in fiscal year 2001 to $143,723 in fiscal year 2000. Over the past three years, overtime costs have averaged $130,987 and I recommend that this amount be included in the Board's claim. Moreover, given the fact that I am recommending funding for 65 employees, which is three more employees than the PWSB had during the test year, it is reasonable to assume that the need for overtime will diminish relative to prior periods, lending further support to my adjustment, which is shown in Schedule ACC-8.

3 Testimony of Ms. Crane, Docket No. 2674, Schedule 5.

G. Payroll Taxes

Q. Are you recommending any adjustment to the PWSB's claim for payroll taxes?

A. Yes, consistent with my recommendations to reduce the PWSB's salary and wage expense and overtime cost claims, I am making a corresponding adjustment to reduce its payroll tax expense claim. The PWSB included payroll taxes of 7.65% of payroll in its claim. Since I am recommending reductions to the PWSB's salary and wage expense and overtime cost claims, it is necessary to reduce the PWSB's payroll tax claim as well. At Schedule ACC-9, I have made an adjustment to eliminate the payroll taxes associated with my salary and wage and overtime adjustments.

H. Employee Benefit Costs

Q. How did the Company determine its employee benefit costs?

A. The PWSB included a 20% increase over its fiscal year 2003 employee benefit costs, which includes health care and dental coverage. This resulted in a total increase of $288,089 or over 58% relative to the test year actual costs. I have several concerns about the PWSB's claim. First, the Board did not provide sufficient support for its fiscal year 2003 costs. In response to DIV 1-24 and DIV 1-27, the PWSB provided information showing that fiscal year 2003 employee benefit costs are $544,305, well below the fiscal year 2003 estimate of $649,996 included in its filing. In addition, the PWSB has not provided any support for its proposed 20% fiscal year 2004 increase, other than to state it was based on "conversations with providers."[4] Accordingly, in my opinion the PWSB did not provide sufficient support for the significant increase in employee benefits that it is requesting in this case.

Q. What do you recommend?

A. I recommend that the PWSB's proposed 20% increase in fiscal year 2004 employee benefit costs be denied. This would result in a pro forma expense of $649,996, which is still considerably higher than the actual fiscal year 2003 costs of $544,305 as reported by the Company in its responses to data requests. While I recognize that there are likely to be increases in health care costs each year, my recommendation takes into account and provides for rate increases relative to current cost levels. My adjustment is shown in Schedule ACC-10.

I. Other Budgeted Adjustments

Q. Please comment on the "Other Budgeted Adjustments" included by Mr. Woodcock in Schedule 1.0.

A. As shown on that schedule, there were several expense adjustments identified as "Other Budgeted Adjustments". I have consistently testified that a budgeted expense increase does not meet the test for a known and measurable change to actual test year results. Moreover, different managers may take different approaches to developing budgets or may have different objectives in formulating their budget presentations. Simply because an expense

4 Testimony of Mr. Woodcock, Schedule 1.1, page 1.

amount is included in a utility's budget, it does not follow that this expense amount is appropriate to include in a utility's revenue requirement.

Given my concerns about budgeted data, I requested supporting documentation from the PWSB for each expense item that had been identified as a budget adjustment. This included the following expense categories: Education and Training (Administration), Outside Services (Administration), Pagers/Cell Phones (Administration), Telephone, Heating, Workers Compensation, Advertising/Classified, Printing (Administration), Office Supplies/Other (Administration), Housekeeping Supplies, Municipal Charges, Education and Training (Customer Service), Outside Services (Customer Service), Printing (Customer Service), Postage (Customer Service), Education and Training (Engineering), Vehicle Maintenance, Dues and Subscriptions, and Office Supplies/Other (Engineering). For the most part, the PWSB provided satisfactory explanations and supporting documentation during the discovery process for these expense adjustments. However, there were three areas in which the documentation provided by the PWSB was insufficient to justify an expense adjustment. In addition, there were two areas in which the PWSB revised their claim as a result of our discovery.

Q. Please discuss the three adjustments that were not sufficiently supported by the PWSB.

A. The PWSB included an increase in its Education and Training (Administration) costs from $7,519 to $12,000. In response to DIV 1-41, the PWSB provided some estimated costs for various training and conferences. However, these estimates were not well supported.

Moreover, there was no explanation for why these administration costs would be expected to increase by almost 60% over the actual test year level. Therefore, I recommend that the PWSB's claim be rejected. Instead, I recommend that the Commission include $10,000 in Education and Training (Administration) costs in rates, which is the amount that was included in the stipulation in the PWSB's last base rate case. This allowance would still provide for some growth over the test year actual expense, but it is more reasonable than the 60% increase being requested by the PWSB, especially when one considers the Education and Training (Administration) expense amount currently reflected in rates.

Second, the PWSB has included Outside Services (Customer Service) costs of $21,341 in its claim. However, the only documentation to support these costs that was provided in response to DIV 1-41 was a contract bid for a lockbox in the amount of $19,070. Therefore, the PWSB's claim for Outside Services (Customer Service) should be reduced to $19,070.

Finally, the PWSB increased its Postage (Customer Service) costs by almost 64% from $19,529 to $32,000. The Board did not provide any rationale for this substantial increase over the test year actual cost, although documentation was requested in DIV 1-41. Since last year's postal rate increase was approximately 8.8%, I recommend that the test year postage costs be increased by 8.8%, which would result in total costs of approximately $21,250.

Each of these three adjustments is included in Schedule ACC-11.

Q. Please describe the two corrections that have made by the Company to its Other Budgeted Adjustments.

A. In response to DIV 1-41, the Company indicated that both Printing (Administration) costs and Printing (Customer Service) costs should be reduced, to $22,000 and $19,500 respectively. Apparently, the Board mistakenly included certain costs in both its Printing cost claims and in other expense categories. Therefore, in order to avoid double counting these costs, the corrections outlined by the Board in the response to DIV 1-41 need to be made. These adjustments are also shown in Schedule ACC-11.

J. Non-Recurring Costs

Q. Are there any non-recurring costs included in the Board's claim?

A. Yes, according to the responses to DIV 1-41 and DIV 3-11, the PWSB incurred a $2,000 penalty imposed by the Environmental Protection Agency ("EPA") during the test year. According to the response to DIV 1-41, this penalty was imposed because the Board did not properly prepare a Spill Prevention Control and Countermeasure Plan for an above ground heating oil tank. The payment was made to the United States Coast Guard Oil Spill Liability Trust Fund.

Q. Should this amount be included in the Board's revenue requirement?

A. No, it should not, for two reasons. First, ratepayers should not be required to pay for penalties that are imposed as a result of the Board not complying with governmental regulations. In an investor-owned utility, these costs should be borne by shareholders. I realize that the PWSB is not an investor-owned utility, but it still seems inappropriate to have ratepayers fund penalties that are imposed upon the Board for non-compliance.

Second, the penalty is a non-recurring expense. Therefore, the PWSB is not expected to incur this cost prospectively during the rate year. For both of these reasons, I recommend that this expense be eliminated from the Board's revenue requirement claim. My adjustment is shown in Schedule ACC-12.

K. Property Tax Expenses

Q. Please discuss the Board's proposed adjustment to its property tax expense.

A. PWSB has included an increase in its property tax expense from $638,541 in the test year to $851,745 in the rate year. The rate year claim reflects an anticipated 5% increase over the fiscal year 2003 costs of $811,186. As discussed by the PWSB in the testimonies of Ms. Marchand and Mr. Woodcock, much of this increase is the result of an increase in the tax assessment from the Town of Cumberland. The PWSB is challenging the resulting tax increase, but according to Ms. Marchand, "…we are paying the additional amount in order to be able to take it to Superior Court, if necessary."[5]

According to the response to COM 1-8, since the PWSB's testimony was filed, Cumberland has reduced the PWSB's taxes by $23,117. However, this reduction apparently represents only a small portion of the total amount being challenged by the Board. Given that much of the increase is being driven by tax increases from Cumberland, the PWSB is asking the Commission to consider imposing a surcharge on the customers in Cumberland to recover the increased taxes being imposed by that town.

Q. Are you recommending any adjustment to the Board's pro forma property tax expense claim?

A. I have made one adjustment, to reflect the tax reduction of $23,117 that Cumberland has agreed to make. In addition, I have eliminated the 5% increase in fiscal year 2004 associated with this $23,117. I have not made any other adjustment to the pro forma expense proposed by Cumberland. Although the 5% increase for fiscal year 2004 is not supported with empirical evidence, a review of the actual taxes paid to date in the current fiscal year suggests that the Board's proposed pro forma expense claim is not unreasonable. If the Board is successful in challenging the increases from Cumberland, then any amounts refunded from Cumberland should be deposited in the Board's IFR account and used to fund IFR projects.

L. Chemical Costs

Q. Is the Board proposing any adjustment to its test year chemical costs?

A. Yes, the PWSB is proposing a significant increase to its actual test year chemical costs. Specifically, the PWSB is requesting an increase from its actual test year costs of $256,684 to $418,803, an increase of over 63%.

5 Testimony of Ms. Marchand, page 9, lines 1-3.

Q. Has the PWSB provided documentation to support this increase?

A. No, it has not. While Mr. Woodcock did provide the quantities of chemicals and the price per unit used to develop the Board's rate year claim, the Board has not explained the rationale for the significant cost increase. It appears that much of this increase is due to changes in the quantity of chemicals. However, since the Board has not proposed any increase in the volume of water sales relative to the test year actual, there is no rationale for assuming that additional quantities of chemicals will be required.

Q. What do you recommend?

A. I recommend that the pro forma chemical expenses be determined by pricing the actual test year quantities of chemicals, adjusted to reflect my recommended increase in volumetric sales, at the unit rates contained in Mr. Woodcock's testimony. My adjustment is shown in Schedule ACC-14. It should be noted that I have asked additional discovery in this area in an attempt to elicit further support from the PWSB for its rate year claim. The Board has not yet responded to this additional discovery. If necessary, I will revise my recommendation based on the Board's discovery responses.

M. Beeper Stipends

Q. Did the Board indicate in discovery that it was necessary to revise its claim for beeper stipends?

A. Yes, it did. In response to DIV 1-41, the PWSB indicated that certain revisions to its claim for beeper stipends should be made.[6] Specifically, the Board stated that it had inadvertently used the projected rate year expense as the test year adjustment in certain cases. At Schedule ACC-15, I have made an adjustment to revise the PWSB's claim for beeper stipends consistent with the response to DIV 1-41.

N. Leak Detection Costs

Q. Is the PWSB proposing to expand its leak detection program?

A. Yes, as discussed on pages 9-10 of Ms. Marchand's testimony, the PWSB has included an adjustment of $20,000 for additional leak detection equipment. In addition, the Board has included the position of Leak Detection Crew Leader in its filing.

Q. Are you recommending any adjustment to the Board's claim with regard to leak detection costs?

A. I am recommending one adjustment. In response to DIV 1-42, the PWSB provided a breakdown of the various costs components included in the $20,000 equipment claim. This response shows various alternatives of the equipment that can be procured. The specific equipment that the Board indicated it would obtain totals $15,495. Therefore, at Schedule ACC-16, I made an adjustment to reflect a reduction in the Board's leak detection equipment costs from $20,000 to $15,495.

6 Mr. Woodcock also called me to alert me to the need for this revision.

O. Regulatory Commission Costs

Q. How much has the Board included in its filing relating to regulatory commission costs?

A. The Board included its actual test year costs of $158,983. Most of these costs related to Docket No. 3378.

Q. Are you recommending any adjustments to the Board's claim?

A. Yes, I am recommending that the PWSB's regulatory commission costs be normalized, based on the average actual costs incurred by PWSB in its last three rate proceedings. Moreover, I am recommending a two year normalization period for regulatory commission costs, on the basis that, on average, the Board has a rate case filing approximately every two years. This recommendation results in an average cost per rate proceeding of $106,318, or $53,159. My adjustment is shown in ACC-17. This adjustment is appropriate since the level of regulatory commission expense can fluctuate significantly from year-to-year as the result of variations in rate case activity.

P. Capital Leases

Q. What are capital leases?

A. Capital leases are leases for vehicles and other types of equipment. In its filing, PWSB included capital lease costs of $110,689. This was the same amount that was included in the Board's revenue requirement in the stipulation in its last case.

Q. Are you recommending any adjustment to this claim?

A. Yes, I am. In DIV 1-47, the PWSB was asked to provide the leases for each vehicle included in its claim. The current leases provided in response to that request total $60,060, well below the PWSB's claim of $110,689. I believe that the discrepancy may be due to the fact that the Board apparently included a lease for $57,979 annually that terminated in September 30, 2002. Therefore, while these costs were incurred in the test year, they will not be incurred in the rate year. The Board should be required to provide either a new lease for these vehicles or to remove these costs from its claim. As shown in Schedule ACC-18, I have revised the Board's revenue requirement to reflect only those vehicles leases for which current contracts have been furnished.

Q. Infrastructure Replacement Fund

Q. Is the Board requesting an increase in its IFR funding relative to the amount approved in its last case?

A. Yes, the Board is requesting an increase from the $2,033,039 approved in its last case to $2,671,039, for an increase of $638,000. The Board proposes to use this additional amount to fund some of the projects associated with the delay in the construction of the new treatment plant, as shown in Ms. Marchand's testimony.

Q. Are you opposed to the Board's proposal?

A. While I am not opposed to its proposal to fund these projects through current rates, I believe that a two-year recovery period, rather than a one-year recovery period, should be authorized by the Commission. As discussed earlier in my discussion of Treatment Plant-Related Expenses, these projects will not all be undertaken in the rate year. Moreover, providing for full recovery over one year will result in excessive rates being charged to ratepayers in subsequent years, assuming that the rates established in this case are effective for a period exceeding twelve months. At Schedule ACC-19, I have made an adjustment to reflect a two-year recovery of these additional costs totaling $638,000, or $319,000 per year.

Q. Did you also examine the Board's capital budget to determine how much it was projecting to spend from the IRF account in subsequent years?

A. Yes, I did. According to the response to DIV 1-2, from 2006 to 2011, the Board is projecting annual IFR expenditures of $1.76 million per year, except in 2009 when it is projecting expenditures of $2.76 million. Therefore, the increased funding being requested by the Board is not included in its IFR budget after fiscal year 2005, providing further support for my recommendation.

R. Operating and Maintenance ("O&M") Reserve

Q. Please describe the O&M Reserve account.

A. It is my understanding that pursuant to certain debt covenants, the PWSB is required to fund a reserve by 25% of its annual operating and maintenance expenses. In the past, this reserve was typically funded over a three-year period, which I understand is consistent with the requirements of the debt covenants. In its filing, the PWSB has included annual funding of $723,033, which reflects a total reserve of $2,169,099 funded over three years.

Q. Are you recommending any adjustments to the Board's claim?

A. Yes, I am recommending two adjustments. First, since I am recommending a lower level of operating and maintenance expenses than the operating and maintenance expenses requested by the PWSB, my required reserve is correspondingly lower than the reserve calculated by the Board. Second, in calculating its revenue requirement, the PWSB assumed that it would be required to fund the entire reserve requirement, i.e., it did not take into account the fact that the Commission provided for some funding level in the Board's last base rate case. According to the response to COM 1-2, the O&M Reserve had a balance of $322,143 at February 28, 2003. At the current funding level, that balance would be expected to grow to $483,214 by June 30, 2003. Accordingly, I reduced the Board's claim to reflect the fact that $483,214 will already by funded at June 30, 2003. My adjustment is shown in Schedule ACC-20.

S. Operating Revenue Allowance

Q. What is an operating revenue allowance?

A. The PWSB is not an investor-owned utility. Accordingly, it is regulated on a cash flow basis. The PWSB=s revenue requirement does not include any return on rate base**,** which is traditionally included in the revenue requirement of an investor-owned utility. However, the Commission has traditionally allowed municipal water utilities to collect an operating reserve allowance of 1.5% of total expenses Ain order to mitigate cash flow problems, and to provide for unforeseen expenditures or reduced revenue.≅[7] Rather than including 1.5% of total expenses in its claim, the PWSB included a flat rate amount of $57,321. According to Mr. Woodcock's testimony at page 6, this claim was limited to $57,321 because any additional amount would have caused the overall rate increase to exceed 28%. However, Mr. Woodcock went on to state that if the Commission reduced the overall amount of the Board's requested increase, then the operating revenue allowance should be corresponding increased, up to the allowance of 1.5% of total expense that has traditionally been granted by the Commission.

Q. What are you recommending in this case?

A. Since the Board included only $57,321 of an operating revenue allowance in its revenue requirement, it is reasonable to assume that the Board considers $57,321 to be sufficient to allow the Board to continue to provide water utility service in a safe and adequate manner. However, given the fact that I have recommended that the PWSB's rate increase be significantly reduced from the amount requested, I believe that it is also reasonable to

[7] Compliance Order in Docket No. 2198, page 69.

provide for some additional operating revenue allowance. Therefore, I recommend that the Commission continue to permit PWSB to recover a 1.5% operating revenue allowance, but I recommend that this percentage be applied only to the PWSB's operating and maintenance expenses. These costs are subject to greater variation and uncertainty than the capital costs included in the PWSB's filing. This methodology would also be consistent with the debt covenant reserve requirement, which is also based on operating and maintenance expenses rather than total costs. Accordingly, at Schedule ACC-21, I have made an adjustment to apply the 1.5% operating revenue allowance to the pro forma level of operating and maintenance expenses that I have found to be reasonable. I believe that this is a reasonable compromise between allowing the PWSB to recover an additional 1.5% of all costs and limiting the allowance to the $57,321 included in the Company's request.

V. SUMMARY

Q. What is the result of the adjustments that you are recommending in this case?

A. My adjustments reduce the PWSB's revenue requirement from the $14,708,720 included in Mr. Woodcock=s testimony to $12,852,887. Based on my pro forma revenue recommendation at present rates of $11737,306, I recommend a rate increase of $1,115,581 or 9.5% of total revenue.

To summarize, I am recommending the following adjustments to the PWSB's claim:

Retail Sales	$ 68,864
Wholesale Sales	115,884
Surcharge Revenue	1,229
Treatment Plant Related Costs	748,700
Salaries and Wages	40,174
Overtime Costs	13,860
Payroll Taxes	4,134
Health Benefit Costs	129,999
Other Budget Adjustments	26,023
Non-recurring Costs	2,000
Property Taxes	24,272
Chemical Costs	171,785
Beeper Stipends	13,090
Leak Detection Costs	4,505
Regulatory Commission Costs	105,824
Capital Leases	50,629
Infrastructure Rehabilitation Fund	319,000
Operating and Maintenance Reserve	257,335
Operating Revenue Allowance	(55,497)
Total	$2,041,810

It should be noted that $708,000 of my adjustments relate to timing differences rather than outright disallowances, since I am recommending that certain costs be funded over two years rather than the one year requested by the PWSB. The recommendations contained in the testimony may be updated or revised based upon my review of the responses to outstanding discovery.

Q. Does this conclude your testimony?

A. Yes, it does.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

REVENUE REQUIREMENT SUMMARY

		Board Request (A)	Recommended Adjustments		Recommended Position
1.	Present Rate Revenue (B)	$11,277,415	$184,748	(C)	$11,462,163
2.	Miscellaneous Revenue	273,915	1,229	(D)	275,144
3.	Total Pro Forma Revenue	$11,551,330	$185,976		$11,737,306
	Operating Expenses				
4.	Administrative Expenses	$2,328,763	($302,990)	(E)	$2,025,773
5.	Customer Services Expenses	231,069	(19,023)	(F)	212,046
6.	Sources of Supply Expenses	851,959	(24,272)	(G)	827,687
7.	Pumping Expenses	651,329	(45,000)	(H)	606,329
8.	Purification Expenses	2,424,182	(751,995)	(I)	1,672,187
9.	Transmission and Distribution	1,284,079	(10,825)	(J)	1,273,254
10.	Engineering Expenses	473,807	0		473,807
11.	Meter Department Expenses	431,205	(1,060)	(K)	430,145
	Capital Costs				
12.	RICWFA Expense	$100,000	$0		$100,000
13.	Bond Principal	930,000	0		930,000
14.	Bond Interest	1,291,045	0		1,291,045
15.	Lease Payments	110,689	(50,629)	(L)	60,060
16.	Infrastructure Rehabilitation	2,671,039	(319,000)	(M)	2,352,039
17.	Treatment/Pumping/Storage	149,200	(129,200)	(H)	20,000
18.	O&M Reserve Deposit	723,033	(257,335)	(N)	465,698
19.	R&R Reserve Deposit	0	0		0
20.	TOTAL EXPENSES	$14,651,399	($1,911,331)		$12,740,068
21.	Plus Operating Income	$57,321	$55,497	(O)	112,818
22.	REVENUE REQUIREMENT	$14,708,720	($1,855,833)		$12,852,887
23.	REQUIRED RATE INCREASE ($)	$3,157,390	($2,041,809)		$1,115,581
24.	REQ. INCREASE - RATE REV.	28.00%			9.73%
25.	REQ. INCREASE - TOTAL REV.	27.33%			9.50%

Sources:
(A) CPNW Schedule 1.0.
(B) CPNW Schedule 5.0, page 2 of 2.
(C) Schedules ACC-2 and ACC-3.
(D) Schedule ACC-4.
(E) Schedule ACC-6.
(F) Schedule ACC-11.
(G) Schedule ACC-13.
(H) Schedule ACC-5.
(I) Schedules ACC-5, ACC-14, and ACC-15.
(J) Schedules ACC-15 and ACC-16.
(K) Schedule ACC-15.
(L) Schedule ACC-18.
(M) Schedule ACC-19.
(N) Schedule ACC-20.
(O) Schedule ACC-21.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

PRO FORMA RETAIL REVENUE

1.	Five Year Average Consumption (HCF)	154.5	(A)
2.	Actual Test Year Consumption (HCF)	152.7	(A)
3.	Recommended Adjustment Per Customer	1.8	
4.	Residential Test Year Customers	22,531	(A)
5.	Total Recommended Adjustment (HCF)	40,556	
6.	Current Volumetric Rate Per HCF	$1.6980	(B)
7.	Total Revenue Adjustment	$68,864	

Sources:
(A) Testimony of Ms. Crane, page 9.
(B) Testimony of Mr. Woodcock, Schedule 3.0, page 1.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

WHOLESALE SALES

1.	Nine Year Average (HCF)	712,834	(A)
2.	PWSB Claim (HCF)	630,530	(B)
3.	Recommended Adjustment (HCF)	82,304	
4.	Current Rate	1.408	(B)
5.	Pro Forma Revenue Adjustment	$115,884	

Sources:
(A) Testimony of Ms. Crane, page 11.
(B) Response to DIV 1-31.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

SURCHARGE REVENUE

1.	Recommended Retail Adjustment (HCF)	40,556
2.	Recommended Wholesale Adjustment (HCF)	82,304
3.	Total Recommended Adjustment (HCF)	122,860
4.	Surcharge Revenue @ $0.01 / HCF	$1,229

Sources:
(A) Schedule ACC-2.
(B) Schedule ACC-3.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

TREATMENT PLANT RELATED COSTS

		Total Costs	Previously Funded	Remaining Costs	
1.	Purificiation Costs Relating to Delays	$898,500	$250,500	$648,000	(A)
2.	Pumping Costs Relating to Delays	90,000	0	90,000	(B)
3.	Interim Costs Covered Under DBO	149,200	109,200	40,000	(C)
4.	Total Costs	$1,137,700	$359,700	$778,000	
5.	Recovery over Two Years			$389,000	
6.	Recommended Adjustment			$748,700	(D)
	Allocation of Adjustment:				
	Purification			$574,500	
	Pumping			$45,000	
	Other			$129,200	

Sources:
(A) CPNW Schedule 1.0, page 3.
(B) CPNW Schedule 1.0, page 2.
(C) CPNW Schedule 1.0, page 5.
(D) Total costs per PWSB of $1,137,700 less recommended annual
recovery of $389,000.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

SUMMARY OF ADMINISTRATIVE ADJUSTMENTS

			Schedule No.
1.	Salaries and Wages	$40,174	7
2.	Overtime Costs	13,860	8
3.	Payroll Taxes	4,134	9
4.	Benefits Expense	129,999	10
5.	Training and Education	2,000	11
6.	Printing	5,000	11
7.	Coast Guard Penalty	2,000	12
8.	Regulatory Commission Expenses	105,824	17
9.	Total Administrative Expenses	$302,990	

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

SALARIES AND WAGES

1.	Total Salary and Wages Ex. Administration	$2,330,078	(A)
2.	Number of Employees Ex. Administation	58	(A)
3.	Average Salary/Wage Per Employee	$40,174	
4.	Recommended Adjustment	$40,174	

Sources:
(A) Response to DIV 1-12.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

SALARIES AND WAGES - OVERTIME COSTS

1.	PWSB Overtime Claim	$144,847	(A)
2.	Three Year Average	130,987	(B)
3.	Recommended Adjustment	$13,860	

Sources:
(A) CPNW Schedule 1.3, page 1.
(B) Response to DIV 1-14.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

PAYROLL TAXES

1.	Recommended Salary and Wage Adjustment	$54,034	(A)
2.	Payroll Taxes @ 7.65%	7.65%	(B)
3.	Recommended Payroll Tax Adjustment	$4,134	

Sources:
(A) Schedules ACC-7 and ACC-8.
(B) CPNW Schedule 1.3, page 1.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

EMPLOYEE BENEFIT COSTS

1.	Total FY 2004 Claim - Health and Dental	$779,995	(A)
2.	Estimated FY 2003 Claim	649,996	(A)
3.	Recommended Expense Adjustment	$129,999	

Sources:
(A) Includes health and dental benefits per CPNW Schedule 1.1, page 1.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

OTHER BUDGET ITEMS

	PWSB Claim (A)	Rec. Amount (B)	Rec. Adj.	
1. Training and Education - Admin	$12,000	$10,000	$2,000	(C)
2. Printing - Admin	27,000	22,000	5,000	(D)
3. Outside Services - Cus. Ser.	21,341	19,070	2,271	(E)
4. Printing - Cus. Ser.	25,500	19,500	6,000	(D)
5. Postage - Cus. Ser.	32,000	21,248	10,752	(F)
6. Total			$26,023	

Sources:
(A) CPNW, Schedule 1.
(B) Testimony of Ms. Crane.
(C) Reflects amount included in current rates.
(D) Response to DIV 1-41.
(E) Reflects new lockbox contract per the supplemental response to DIV 1-41.
(F) Test year amount increased by 8.8% postal rate increase.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

NON-RECURRING COSTS

1.	US Coast Guard Spill Penalty	$2,000	(A)
2.	Recommended Adjustment	$2,000	

Sources:
(A) Responses to DIV 1-40 and 3-11.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

PROPERTY TAXES

1.	Reduction of Taxes From Cumberland	$23,117	(A)
2.	FY 2004 5% Increase Included by PWSB	1,156	(B)
3.	Total Recommended Adjustment	$24,272	

Sources:
(A) Response to COM 1-8.
(B) Increase per CPNW Schedule 1.1, page 1.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

CHEMICAL COSTS

	Current Cost (A)	Volume (B)	Pro Forma Cost	PWSB Claim (A)	Rec. Adj.
1. Polymer (lbs.)	$0.40	17,871	$7,148	$23,112	$15,964
2. Chlorine (Tons)	$415.00	83	$34,464	$43,600	9,136
3. Caustic (Dry Tons)	$366.80	271	$99,281	$130,305	31,024
4. Alum (Tons)	$214.87	368	$79,086	$76,376	(2,710)
5. Alum (Gals.)	$0.59	13,045	$7,697	$33,586	25,889
6. Sodium Aluminate (Gal.)	$2.19	0	$0	$75,517	75,517
7, Fluoride (Tons)	$169.60	89	$15,128	$19,478	4,350
8. Sod. Hypo (Gal.)	$1.37	3,076	$4,214	$8,382	4,168
9. Corrosion Cntl (Gal.)	$2.03	0	$0	$8,447	8,447
10. Total Adjustment					$171,785

Sources:
(A) CPNW Schedule 1.1, page 2.
(B) Response to DIV 1-38, adjusted to reflect Ms. Crane's recommended volumetric increase of 2.53%. Polymer reflects conversion to lbs.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

BEEPER STIPENDS

	Pro Forma (A)	Company Claim (B)	Recommended Adjustment
1. Meter Department	$1,040	$2,100	$1,060
2. Distribution	7,540	13,860	6,320
3. Purification	3,900	9,610	5,710
4. Supply	1,820	1,820	0
5. Total Recommended Adjustment			$13,090

Sources:
(A) CPNW Schedule 1.3, page 1 and Response to DIV 1-41.
(B) CPNW Schedule 1.0.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

LEAK DETECTION COSTS

1.	Model ZCorr3	$9,995	(A)
2.	Map Integration Option	1,500	(A)
3.	Laptop w/ Accessories	4,000	(A)
4.	Total Leak Detection Costs	15,495	
5.	PWSB Claim	20,000	(B)
6.	Recommended Adjustment	$4,505	

Sources:
(A) Response to DIV 1-42.
(B) CPNW Schedule 1.0, page 3.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

REGULATORY COMMISSION EXPENSES

1.	Docket No. 3378	$136,401	(A)
2.	Docket No. 3164	62,052	(A)
3.	Docket No. 2674	120,501	(A)
4.	Average of Last Three Cases	$106,318	
5.	Recovery Period - Years	2	(B)
6.	Annual Recovery	$53,159	
7.	PWSB Claim	158,983	(C)
8.	Recommended Adjustment	$105,824	

Sources:
(A) Annual Report to the Commission for 2002 Fiscal Year, page 35.
(B) Testimony of Ms. Crane, page 27.
(C) Testimony of Mr. Woodcock, Schedule 1.0, page 1.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

CAPITAL LEASES

1.	Total Supported Costs	$60,060	(A)
2.	PWSB Claim	110,689	(B)
3.	Recommended Adjustment	$50,629	

Sources:
(A) Response to DIV 1-47.
(B) CPNW Schedule 1.0, page 5.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

INFRASTRUCTURE REHABILITATION

1.	PWSB Requested IFR Increase	$638,000	(A)
2.	Recommended Recovery Period	2	(B)
3.	Recommended Annual Increase	$319,000	
4.	Recommended Adjustment	$319,000	(C)

Sources:
(A) CPNW Schedule 1.0, page 5.
(B) Testimony of Ms. Crane, page 29.
(C) Line 1 - Line 3.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING JUNE 30, 2004

OPERATING AND MAINTENANCE RESERVE

1.	Rate Year Operating and Maintenance Expense	$7,521,227	(A)
2.	Required Reserve @ 25%	1,880,307	(B)
3.	Average Monthly Deposit	40,268	(C)
4.	Deposits through June 30, 2003	483,214	(D)
5.	Required Balance	$1,397,093	(E)
6.	Recovery Period	3	(F)
7.	Annual Recovery	$465,698	(G)
8.	PWSB Claim	723,033	(F)
9.	Recommended Adjustment	$257,335	

Sources:
(A) Schedule ACC-1, lines 4-11.
(B) 25% of Line 1.
(C) Derived from response to COM 1-2.
(D) Reflects 12 months of deposits.
(E) Line 2 - Line 4.
(F) CPNW Schedule 1.1, page 2.
(G) Line 5 / Line 6.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2002

OPERATING REVENUE ALLOWANCE

1.	Operating and Maintenance Expenses	$7,521,227	(A)
2.	Operating Income @ 1.5%	112,818	(B)
3.	PWSB Claim	57,321	(C)
4.	Recommended Adjustment	$55,497	

Sources:
(A) Schedule ACC-1, lines 4-11.
(B) 1.5% of Line 1.
(C) CPNW Schedule 1.0, page 5.